

## Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 DODE-00 PM-07 H-03 L-03 PA-04 PRS-01 USIA-15

IO-14 SCI-06 INT-08 SCEM-02 DRC-01 /195 W

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R 040730Z JAN 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9028

INFO COMUSJAPAN FUCHU JAPAN

CINCPAC HONOLULU HI

UNCLAS SECTION 1 OF 2 TOKYO 0063

E.O. 11652: N/A

TAGS: EFIN, MARR, JA

SUBJECT: CABINET APPROVES JFY 74 BUDGET

PASS COMMERCE, DOD, TREASURY AND FEDERAL RESERVE

SUMMARY: CABINET APPROVED RESTRICTIVE FY 74 BUDGET ON DEC 29. GENERAL ACCOUNT EXPENDITURES TOTAL YEN17,099 BIL. REPRESENTING INCREASE OF 19.7 PERCENT OVER INITIAL JFY 73 BUDGET. THIS IS SMALLEST INCREASE IN THREE YEARS. IN ADDITION, FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) RAISED ONLY 14.4 PERCENT OVER INITIAL FY 73 AMOUNT TO YEN7,923 BIL. RECORD PERSONAL INCOME TAX CUTS ALSO APPROVED WITH VIEW TOWARD SUMMER UPPER HOUSE ELECTIONS. SOCIAL SECURITY EXPENDITURES UP SHARPLY, BUT PUBLIC WORKS OUTLAYS TO REMAIN UNCHANGED. RELEASE OF FY 74 BUDGET ALSO ACCOMPANIED BY PUBLICATION OF EPA ECONOMIC FORECAST JFY 74 PROJECTING 2.5 PERCENT GROWTH IN REAL GNP, LARGER TRADE SURPLUS AND DECREASED NET OUTFLOWS OF LONG-TERM CAPITAL. END SUMMARY.

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1. CABINET ON DEC 29 GAVE FINAL APPROVAL TO GOVERNMENT'S

"CRISIS BUDGET" FOR JFY 1974 DESIGNED TO FLIGHT INFLATION AND OVERCOME PROBLEM OF ENERGY SHORTAGES. FINMIN FUKUDA SAID BUDGET PRIMARILY EMPHASIZES MEASURES TO CURB DEMAND IN ORDER TO CONTROL INFLATION, BUT ALSO RETAINS AIM OF IMPROVING SOCIAL WELFARE. STRINGENT DRAFT BUDGET WAS SUBJECT TO CERTAIN CHANGES PRIOR TO CABINET APPROVAL DURING DISCUSSIONS HELD WITH VARIOUS GOVT AGENCIES AS WELL AS WITHIN LDP. HOWEVER, ALL CHANGES WERE MADE WITHIN SPENDING CEILING SET IN ORIGINAL DRAFT (REPORTED TOKYO 16510, 12-21-73). SUBMISSION TO DIET DUE EARLY JANUARY.

2. JFY 74 BUDGET BEING CHARACTERIZED AS AUSTERE, WITH YEAR-TO-YEAR GENERAL ACCOUNT OUTLAY GROWING BY LESS THAN 20 PERCENT FOR FIRST TIME IN THREE YEARS. JFY 74 TOTAL REPRESENTS INCREASE OF 19.7 PERCENT OVER ORIGINAL JFY 73 BUDGET. AS MEASURED AGAINST REVISED JFY 73 BUDGET, INCLUDING SUPPLEMENTAL (REPORTED TOKYO A-982 DATED 12-17-73), INCREASE ONLY 12.0 PERCENT WHICH SUBSTANTIALLY LOWER THAN SIMILAR COMPARISONS FOR PRIOR FISCAL YEARS. SPENDING FOR JFY 74 FLIP TO TOTAL YEN7,923.4 BIL., REPRESENTING 14.4 PERCENT INCREASE OVER INITIAL JFY 73 FLIP BUDGET.

3. TAX REVENUES TO INCREASE 24.2 PERCENT, WHICH CONSIDERABLY LARGER THAN INCREASE IN TOTAL EXPENDITURE. THIS INCREASE PROJECTED IN SPITE OF ADOPTION OF MAJOR TAX REFORM PROPOSAL FOR JFY 74 FEATURING ONE OF BIGGEST PERSONAL INCOME TAX CUTS ON RECORD. MEASURE CALLS FOR REDUCTION OF INCOME TAXES THROUGH LARGER DEDUCTIONS AND EXEMPTIONS TOTALLING YEN2,000 BIL. IN FY 74, PARTIALLY AS BID TO ENHANCE THE PRESTIGE OF THE INCUMBENT LDP PARTY AS UPPER HOUSE ELECTIONS NEAR IN MID 1974. TO COMPENSATE FOR REDUCED INCOME TAX REVENUE, REFORM PROPOSAL CALLS FOR HIGHER CORPORATE, AUTOMOBILE AND GASOLINE TAX RATES. AS RESULT, DEFICIT FINANCING THROUGH BOND SALES ESTIMATED AT YEN2,160 BIL. OR 12.6 PERCENT OF TOTAL RECEIPTS, MUCH SMALLER THAN 16.4 PERCENT IN INITIAL JFY 73 BUDGET.

4. IN PAST, BUDGET USUALLY DRAWN UP WITH CONSERVATIVE ESTIMATES OF NATIONAL INCOME GROWTH. THIS ESPECIALLY TRUE THIS YEAR IN LIGHT OF RESTRICTED LEVEL OF PETRO-  
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LEUM IMPORTS, THOUGH MARGIN OF ERROR COULD CONCEIVABLY BE LARGE ON EITHER PLUS OR MINUS SIDE. THUS ESTIMATED LEVEL OF BOND FINANCING POSSBLY SUBJECT TO LARGE REVISIONS DEPENDING ON FUTURE LEVEL OF TAX RECEIPTS. GENERAL ACCOUNT BUDGET FOR JFY 74 AS FOLLOWS IN BILLION YEN:

	PERCENT CHANGE FROM	
REVENUES	JFY 74	INITIAL JFY73
TAXES AND STAMP RECEIPTS	13,762	24.2

OTHER	722	11.8	
GOVT BONDS	2,160	MINUS	7.7
SURPLUS FROM FY 73	455		107.3
TOTAL	17,099		19.7

## EXPENDITURES

## SOCIAL SECURITY &amp; OTHER

WELFARE TRANSFER PAYMENTS	2,891		36.7
CULTURE, EDUCATION AND			
SCIENCE	1,963		25.0
GRANTS TO LOCAL GOVTS	3,382		21.6
PUBLIC WORKS	2,841		0
PENSIONS	584		23.7
NATL DEFENSE	1,093		16.8
FOREIGN ECONOMIC			
COOPERATION	166		28.9
ALL OTHER	4,179		21.4
TOTAL	17,099		19.7

5. INDICATIVE OF STRINGENCY OF FY 74 BUDGET IS AREA OF PUBLIC WORK EXPENDITURES WHERE NO INCREASE OVER FY 73 LEVEL ALLOWED. BUDGET ALSO CONTAINS PROVISIONS TO FREEZE CONSUMER PRICE OF RICE AND NATIONAL RAILWAY FARES FOR SIX MONTH PERIOD TO STEM EVEN FURTHER PRICE RISES. BUDGET DOES HOWEVER LAY GREATER EMPHASIS THIS YEAR ON HOUSING CONSTRUCTION, PROMOTION OF ECONOMIC COOPERATION WITH DEVELOPING NATIONS, DEVELOPMENT OF NEW ENERGY SOURCES AND IMPROVEMENT AND EXPANSION OF EDUCATIONAL FACILITIES. SOCIAL SECURITY EXPENSES WERE UP BY OVER ONE-THIRD FROM FY 73, REPRESENTING SHARPEST GROWTH RATE EVER FOR SUCH OUTLAYS.

6. NATIONAL DEFENSE WAS GRANTED A 16.8 PERCENT INCREASE FROM UNCLASSIFIED

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THE PREVIOUS YEAR, LESS THAN THE ORIGINAL DEFENSE AGENCY REQUEST FOR 23.7 PERCENT INCREASE. REDUCTIONS WERE ACHIEVED BY DELAYING PERSONNEL INCREASES AND WEAPONS ACQUISITION TO FUTURE YEARS. IN ADDITION, DEFENSE FACILITIES ADMINISTRATION AGENCY (DFAA) SPENDING WAS CUT FROM REQUESTED YEN136 BIL. TO YEN108 BIL. THIS STILL AMOUNTS TO A 35 PERCENT INCREASE OVER FY 73, BUT DFAA NEVERTHELESS ABSORBED 43.7 PERCENT OF THE TOTAL REDUCTION IMPOSED ON THE OVERALL JAPAN DEFENSE AGENCY BUDGET REQUEST.

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ACTION EA-14

INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

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IO-14 SCI-06 INT-08 SCEM-02 DRC-01 /195 W

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R 040730Z JAN 74

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 9029

INFO COMUSJAPAN FUCHU AJAPAN

CINCPAC HONOLULU HI

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PASS COMMERCE, DOD, TREASURY AND FEDERAL RESERVE

THE EFFECT THIS CUT WILL HAVE ON RELOCATION CONSTRUCTION FOR US BASE CONSOLIDATION PLANS IN JFY 74 IS NOT YET KNOWN AND WILL BE THE SUBJECT OF FURTHER REPORTING. TOTAL DEFENSE OUTLAY WILL ACCOUNT FOR 0.83 PERCENT OF PROJECTED NOMINAL GROSS NATIONAL PRODUCT (GNP), COMPARED WITH 0.85 PERCENT FOR FISCAL 1973.

7. SUBMISSION OF FY 74 BUDGET TO CABINET WAS ACCOMPANIED BY RELEASE OF GOVERNMENT'S ECONOMIC FORECAST. REAL GNP EXPECTED TO INCREASE 2.5 PERCENT IN FY 74 VERSUS 6.5 PERCENT DURING FY 73 (REF TOKYO 15602, DATED 12/3/73). NOMINAL GNP WILL GROW BY 12.9 PERCENT TO YEN 131.3 TRILLION. REVISED OUTLOOK ASSUMES JAPAN'S TOTAL PETROLEUM IMPORTS DURING NEXT FISCAL YEAR WILL BE 265 MIL. KILOLITERS, DOWN 3 PERCENT FROM FY 73. ASSUMPTION HOWEVER CRITICIZED BY SOME INDUSTRIAL LEADER AS BEING OVERLY OPTIMISTIC. DESPITE STRINGENT BUDGET PROPOSED FOR FY 74 AND CONTINUED TIGHT MONETARY POLICY BEING PURSUED BY BOJ, OUTLOOK PROJECTS INCREASE IN WHOLESALE

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PRICES OF 11.9 PERCENT FOR FY 74. THIS HOWEVER DOWN FROM RATE OF 18.6 PERCENT ANTICIPATED FOR FY 73. LIKEWISE CONSUMER PRICES ARE FORECAST TO RISE 9.6 PERCENT IN NEXT FISCAL YEAR, DOWN SOMEWHAT FROM INCREASE OF 14.0 PERCENT IN FY 73. OFFICIAL FORECAST INDICATES CUT IN BUSINESS AND PLANT AND EQUIPMENT INVESTMENT FROM 28.3 PERCENT INCREASE DURING FY 73 TO ONLY 8.7 PERCENT INCREASE FOR FY 74. INCREASE IN PERSONAL CONSUMPTION EXPENDITURE WILL RECORD GAIN OF 17.0 PERCENT IN FY 74, MORE THAN THE RISE IN NOMINAL GNP. FOLLOWING ARE REVISED EPA PROJECTIONS IN TRILLION YEN:

	FY 73	FY 74	PERCENT CHANGE
NOMINAL GNP	116.3	131.3	12.9
REAL GNP		2.5	
CONSUMPTION	60.0	70.2	17.0
RESIDENTIAL CONSTRUCTION		9.3	10.6 13.4
PLANT & EQUIP. INVEST.	21.9	23.8	8.7
INVENTOR	3.8	1.7	MINUS 55.3
INDUSTRIAL PROD. (1970-100)	123.8	125.0	1.0
WPI (1970-100)	121.3	135.7	11.9
CPI (1970-100)	128.6	140.9	9.6

8. REGARDING BALANCE OF PAYMENT DEVELOPMNTS, CURRENT ACCOUNT PROJECTED TO REGISTER \$1,150 MIL. SURPLUS JFY 74 AS COMPARED TO ESTIMATED \$800 MIL. DEFICIT FOR CURRENT FISCAL YEAR. THIS REVERSAL ANTICIPATED PRIMARILY DUE TO LARGER TRADE SURPLUS OF \$5,200 MIL. PREDICTED FOR FY 74 VERSUS \$3,100 MIL. IN FY 73. NET LONG-TERM CAPITAL OUTFLOWS ARE FORECAST AT \$4,800 MIL. FOR NEXT FISCAL YEAR, DOWN CONSIDERABLY FROM \$7,800 MIL. PREDICTED FOR FY 73. DEFICIT ON BASIC BALANCE PROJECTED AT \$3,650 MIL. FOR FY 74 VERSUS \$8,600 MIL. FOR FY 73. FOLLOWING IS BALANCE OF PAYMENTS FORECAST IN BIL. DOLLARS:

	FY 73	FY 74
EXPORTS	38.0	44.1
IMPORTS	34.9	38.9
TRADE BALANCE	3.1	5.2
CURRENT ACCOUNT	MINUS 0.8	1.15
LONG-TERM CAPITAL	MINUS 7.8	MINUS 4.8
BASIC BALANCE	MINUS 8.6	MINUS 3.65

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, APPROPRIATIONS, CENTRAL LEGISLATURE, ECONOMIC PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 04 JAN 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**TAGS:** EFIN, MARR, JA  
**To:** STATE  
**Type:** TE  
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